



STATE OF IDAHO  
DEPARTMENT OF  
ENVIRONMENTAL QUALITY

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Dirk Kempthorne, Governor  
Toni Hardesty, Director

**DEQ POLICY MEMORANDUM**  
**PM 06-01**

**POLICY FOR DETERMINING INTEREST RATE ON LOANS FROM THE WATER POLLUTION CONTROL AND DRINKING WATER LOAN ACCOUNTS**

**PURPOSE:**

To establish a method for determining the rate of interest to be charged on loans from the Water Pollution Control and Drinking Water Loan Accounts.

**RATIONALE:**

DEQ has been given direction from both the Governor's office and the Legislature to maintain the purchasing power of the loan programs over time. To do that we have to set the interest rate to address inflation, while at the same time making the rate attractive enough to be able to lend all of the funds. Additionally, there could be some "disadvantaged loans" where the interest rate will be 0% and a possibility that some of the principal forgiven in order to make loans affordable. We will need to offset those loans to some degree.

**STATEMENT OF POLICY:**

For loans issued during state fiscal year 2007 the interest rate DEQ will charge for loans awarded for water pollution control and drinking water projects will be determined as follows:

The interest rate for the following State fiscal year will be 75% of the "State and local bonds" entry reported in "Federal Statistical Release, H.15," lowered to the nearest quarter percent. This entry is quoted by the Federal Reserve from the "Bond Buyer Index" for general obligation bonds (20 years to maturity, mixed quality). For FY2007 the rate for all loans from the Water Pollution Control Loan Account will be 3.25% except loans to the Idaho Soil Conservation Commission, which will be at 2.0%. On loans closed after January 4, 2006 and June 30, 2006 (i.e. for the remainder of FY2006 and for the entirety of FY2007) there will be a loan fee of 1.0% assessed on the declining balance of the new loans issued. To the extent that fees are assessed the interest rate will be reduced by the same percent; e.g. a standard loan with a 1% fee will have a 2.25% interest rate.

For FY2007 the rate for loans from the Drinking Water Loan Account will be 3.25% except that portions of projects that are being constructed solely to comply with federal rules imposed by the Safe Drinking Water Act will be 2.0%. In those cases, the interest rate will be blended between the two rates. The actual loan rate will be determined at the time the loan is awarded. Projects that are consolidating one or more public water systems will also be eligible for 2.0% loans.

These rates are subject to available funds and only apply to the fiscal year/s mentioned. The interest rate may be adjusted if it is determined that the rate of inflation is higher than the interest rate charged, thereby causing the loan funds to lose purchasing power.

**IMPLEMENTATION:**

This policy shall be effective immediately.

Dated: March 6, 2006.

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Toni Hardesty  
Director